

# The Triumph of Injustice

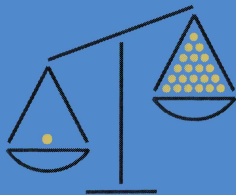
(W.W. Norton)

[TaxJusticeNow.org](http://TaxJusticeNow.org)

Emmanuel Saez  
Gabriel Zucman

# THE TRIUMPH OF INJUSTICE

How the Rich Dodge  
Taxes and How to  
Make Them  
Pay



EMMANUEL SAEZ AND GABRIEL ZUGMAN

## Three main novelties:

- ▷ How much each social group pays in taxes, from early 20th century to today
- ▷ Elements for a new 21st century tax system, reconciling globalization and progressive taxation
- ▷ Tools for a democratic fiscal debate

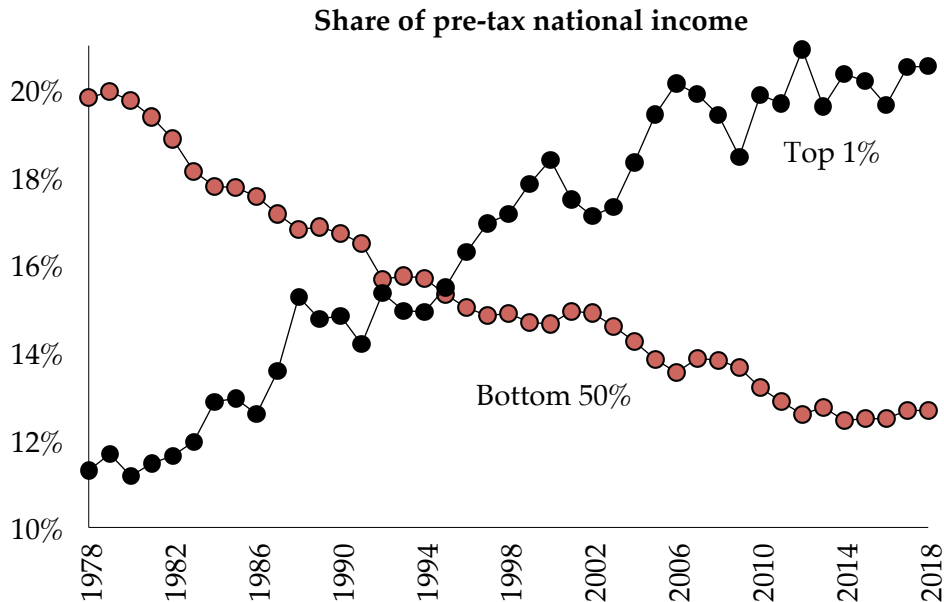
[TaxJusticeNow.org](http://TaxJusticeNow.org)

# Structure of the book

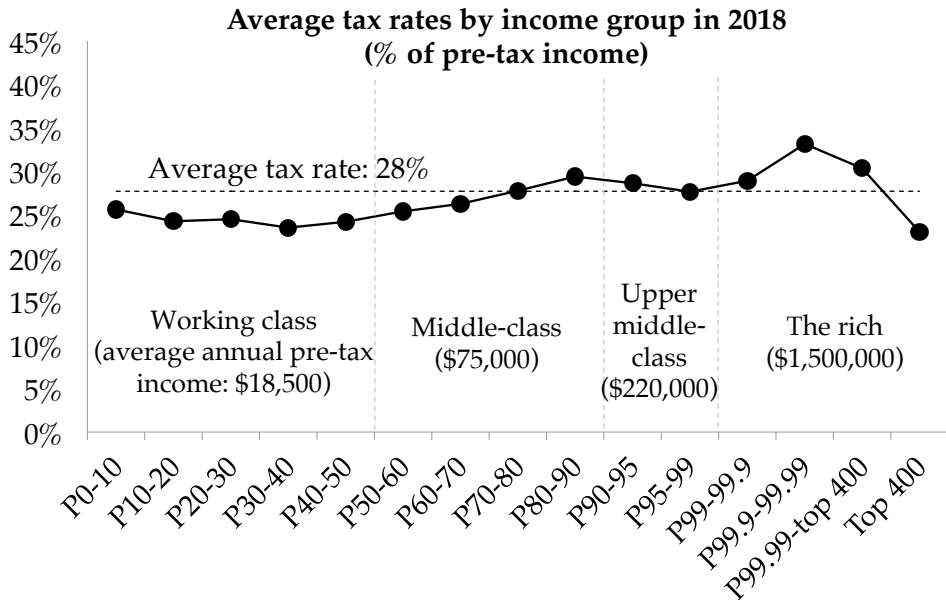
- ▷ Forensic analysis of how much each social group pays in taxes in 2018, post-Trump reform (Chapter 1)
- ▷ How the US went from having one the world's most progressive tax system to one where billionaires pay less than their secretaries (Chapters 2–5)
- ▷ Our proposed tax reform (Chapters 6–9)

All figures, data, computer code, and technical background papers available at [TaxJusticeNow.org](https://TaxJusticeNow.org)

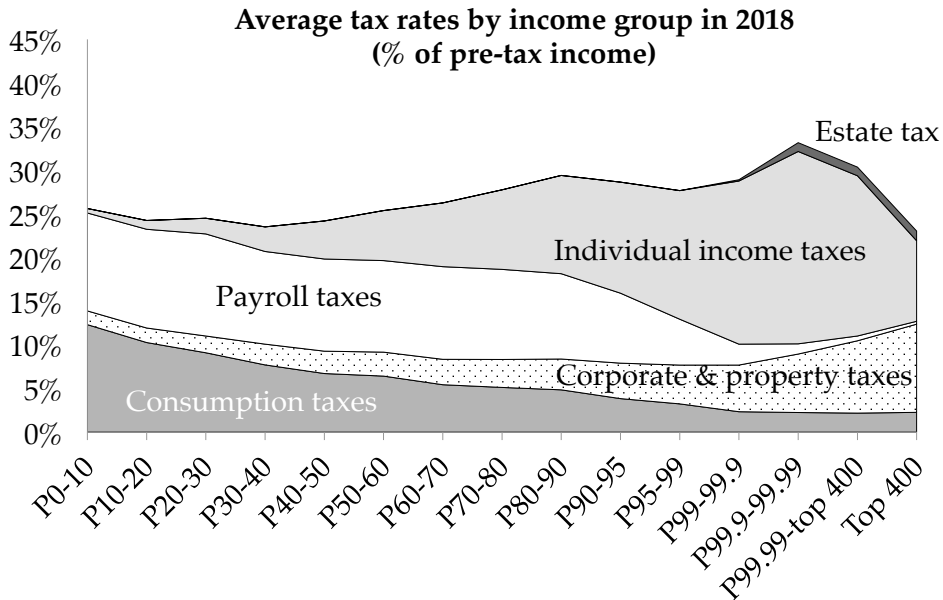
# The rise of income inequality in the United States



# The US tax system today: A giant flat tax regressive at the top



# The US flat tax: Composition by type of tax



# Adding health insurance premiums (privatized poll tax) to the picture

Since 2010, it is mandatory to have health insurance. Mostly done through employers.

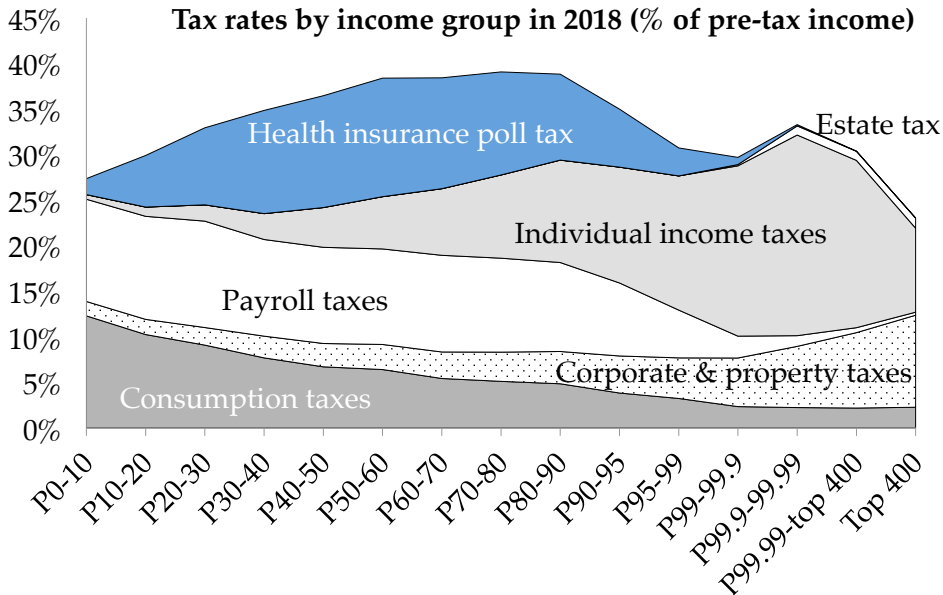
- ▷ Cost \$13,000 per covered worker, irrespect. of income

## **Health insurance premiums = huge poll tax**

administered by employers on behalf of gov (~ Ancien Regime tax farming)

- ▷ Mandatory payments to insurers (private oligopoly)  $\approx$  Medicare tax paid to gov (public monopoly)
- ▷ Except insurance premiums are much more regressive

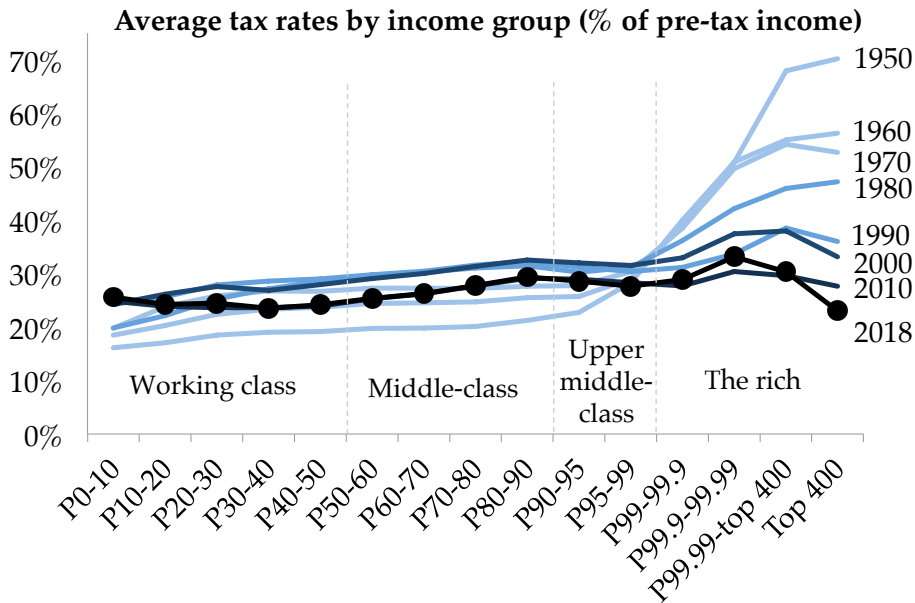
# The US tax system: flat... or massively regressive?





# Long-Run Changes in Tax Progressivity in America

# The shrinking progressivity of the US tax system

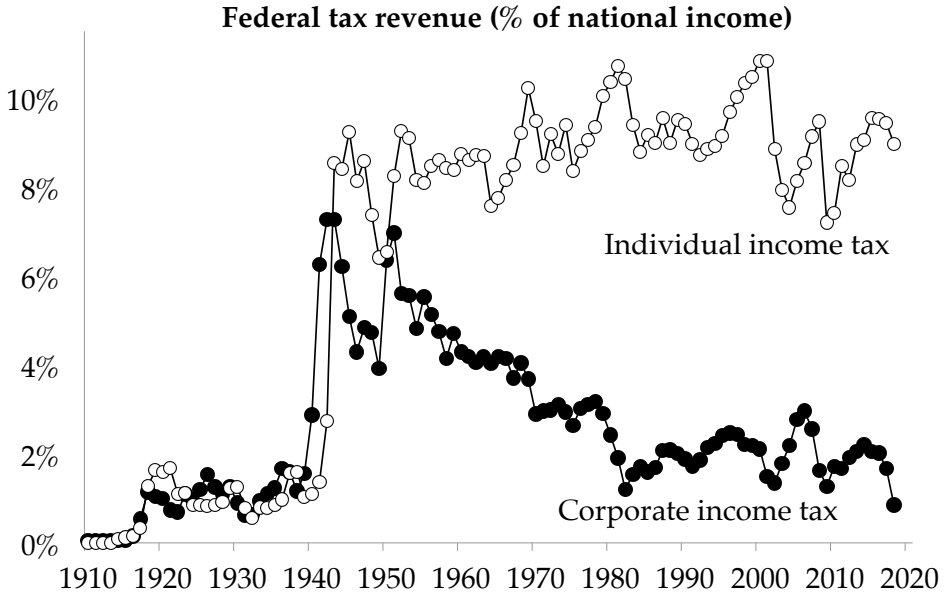


# Why has tax progressivity collapsed?

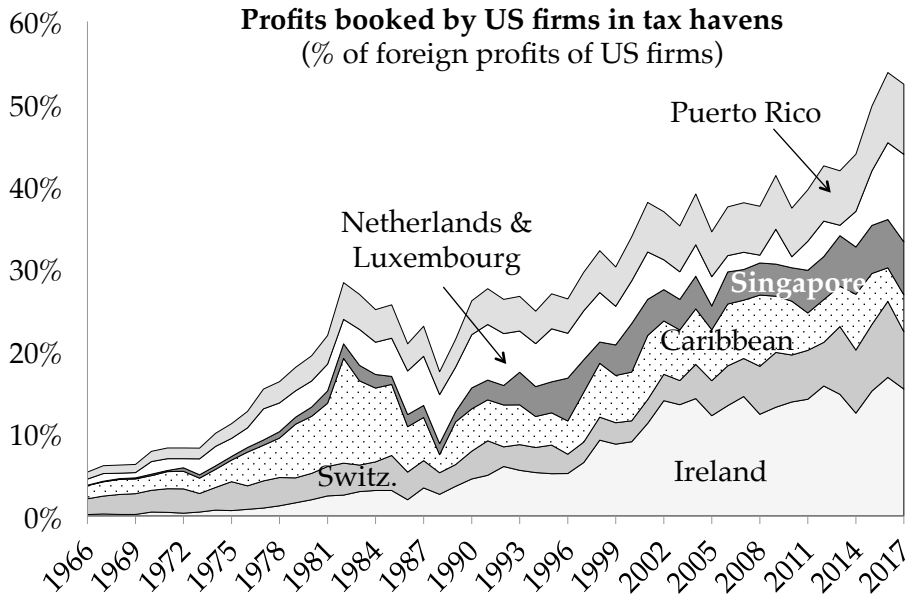
## Three main drivers of declining progressivity:

1. Collapse in capital taxation, itself reflecting changes in politics and ideology
2. Choice to tolerate certain forms of evasion. **Let avoidance fester → slash rates → repeat**
  - ▷ 1980s: individual income tax → Reagan 1986
  - ▷ 2000s-2010s: corporate tax → Trump 2017
3. Globalization in its current form: tax havens; tax competition.
  - ▷ But nothing inherent in globalization prevents K taxation: **other choices are possible**

# The slow agony of the corporate tax

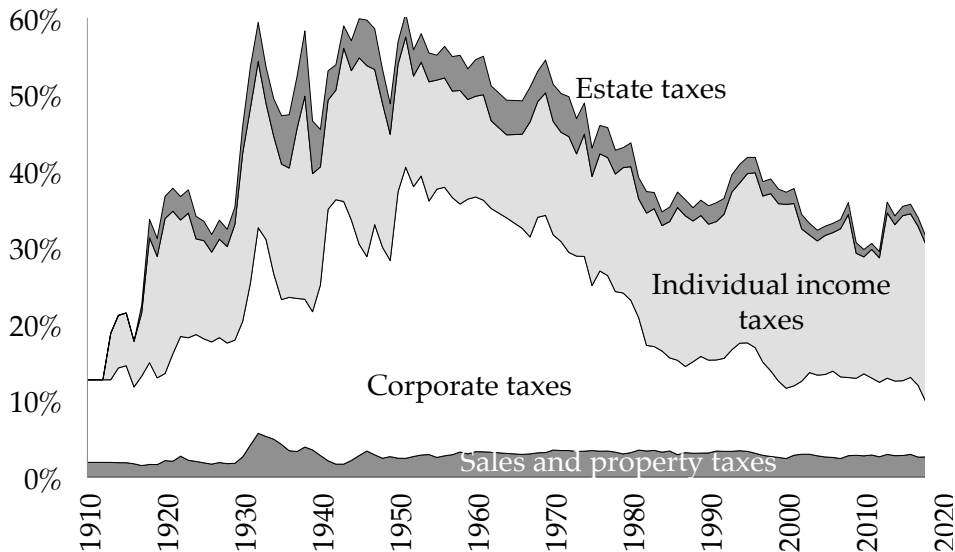


# Letting tax evasion fester: The case of the corporate tax



# The key role of the corporate tax for the wealthy

Average tax rate of the top 0.1% (% of pre-tax income)



# Elements for a 21st Century Tax System

# Our approach: three key principles

## 1. **Reconcile globalization with tax justice**

- ▷ A plan to stop corporate tax evasion and tax competition

## 2. **Protect democracy by taxing extreme wealth**

- ▷ With a 10% wealth tax above \$1 billion, can stabilize wealth inequality to 1980 level

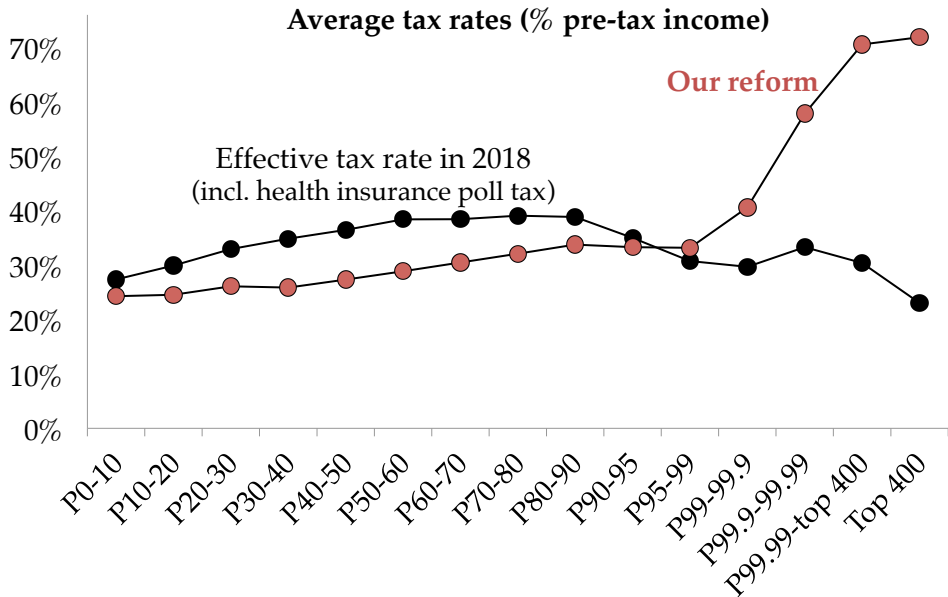
## 3. Fund health care and education (pre-K, university) for all by **reinventing the income tax**

- ▷ New national income tax in lieu of current poll tax

One among many possible sets of solutions. Simulate yours! [TaxJusticeNow.org](http://TaxJusticeNow.org)



# Our proposed US tax revolution: Who would pay what



# Reconcile globalization with tax justice

## **A lot can be done unilaterally to tax corp. more**

How the US could tax US firms:

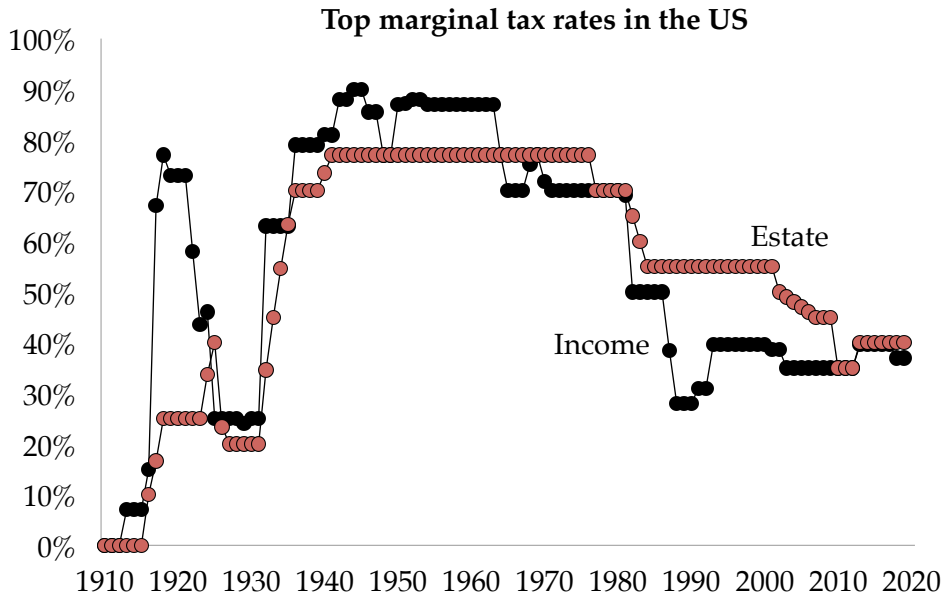
- ▷ 25% minimum tax on country-by-country profits
- ▷ Ex: If Apple pays 2% on the profits it books in Ireland, US would collect the missing  $23\% = 25\% - 2\%$

How the US could tax foreign firms:

- ▷ Sales apportionment of global tax deficit
- ▷ Ex: if Nestlé pays 2% globally and makes 30% of its sales in the US, US would collect  $30\% \times (25\% - 2\%)$

Hard to avoid, can be done by any big country unilaterally

# The progressive fiscal tradition in America



# Reconnect with America's wealth tax tradition

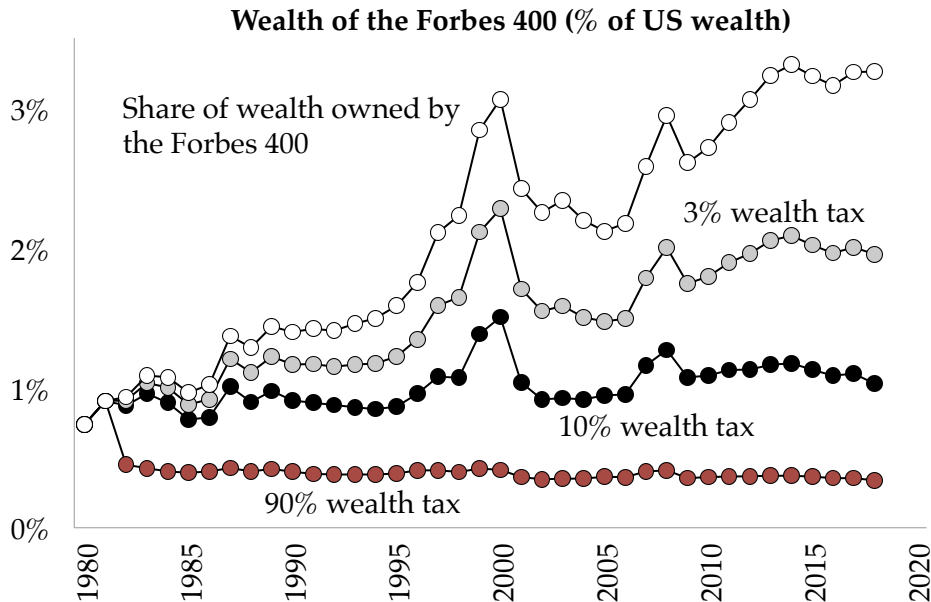
## **US pioneered wealth taxation:**

- ▷ Wealth taxes as far back as 17th c. in Northern states
- ▷ Not only on real estate but also financial assets and other personal property

## **Fight over wealth taxation: key in US fiscal history**

- ▷ Massachusetts: wealth taxation until 1915 (attacked by Harvard profs who wanted to tax housing only [regressive], citing European example...)
- ▷ Virginia: slave-holding oligarchy existential fight against wealth taxes → archaic poll & sales taxes

# If a wealth tax above \$1 billion had been in place since 1982...



# Funding health care for all: the national income tax

Other countries use VAT and payroll taxes to fund health. But **these taxes are regressive & have narrow base**

- ▷ VAT: exempts saving and big sectors (finance, health, education): VAT base  $\approx 40\%$  of national income only
- ▷ Payroll tax: exempts capital income (growing fast)

## **Our solution: a tax on all of national income**

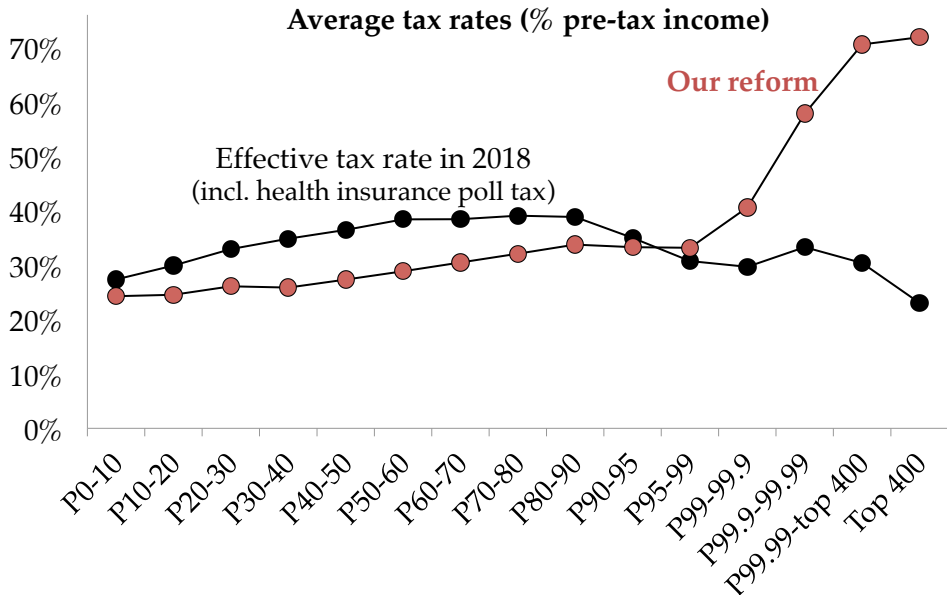
- ▷ Base: all labor costs + interest + business profits + foreign dividends ( $\approx 94\%$  of national income)
- ▷ 6% rate enough to fund health care for all & abolish private poll tax → **big tax cut for bottom 90%**

# Abolish sales taxes and Trump tariffs

## **Economists' love for consumption taxes is misplaced**

- ▷ Theorized during post-WW2 decades of low capital stock / low wealth inequality; opposite context today
  - ▷ What boosts saving: regulations (eg, automatic enrollment in pensions), not tax incentives
  - ▷ Consumption taxes have no role in optimal tax system and are particularly archaic in US (sales taxes < VAT)
- Our proposal abolishes all sales taxes and Trump tariffs (but keeps externality-correcting taxes on gasoline etc.)

# Our proposed reform: Who would pay what





# TaxJusticeNow.org

Taxes of the people, by the people, for the people

# TaxJusticeNow.org

 THE TRIUMPH OF INJUSTICE

TECHNICAL APPENDIX ABOUT

For the first time in over a century,  
billionaires now pay lower tax rates than their secretaries.

# TAX JUSTICE NOW

BEGIN ↓

# Reinventing fiscal democracy

## **What the user can do:**

- ▷ Change existing taxes: income, corporate, estate, etc.  
Can change tax rates and enforcement.
- ▷ Create new taxes (wealth tax, VAT, national income tax, ...)

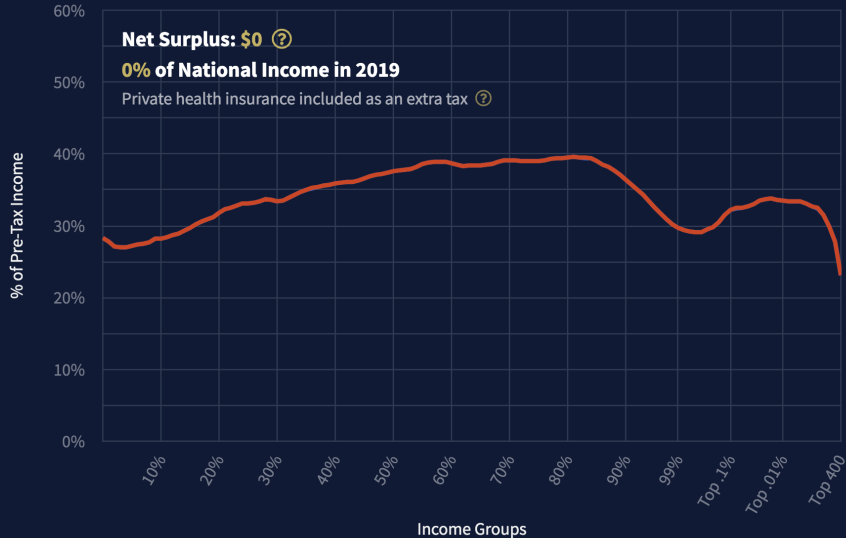
## **What the website does:**

- ▷ Show impact on tax progressivity and revenue
- ▷ User-friendly: move levers or tick boxes
- ▷ Data, methodology, results are all posted online

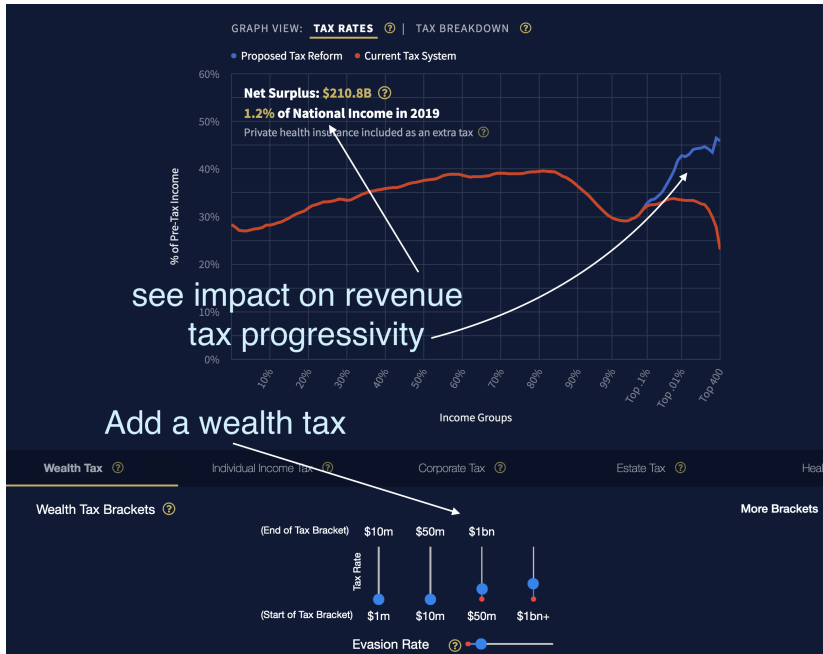
# Starting from who pays what today...

GRAPH VIEW: **TAX RATES** ? | TAX BREAKDOWN ?

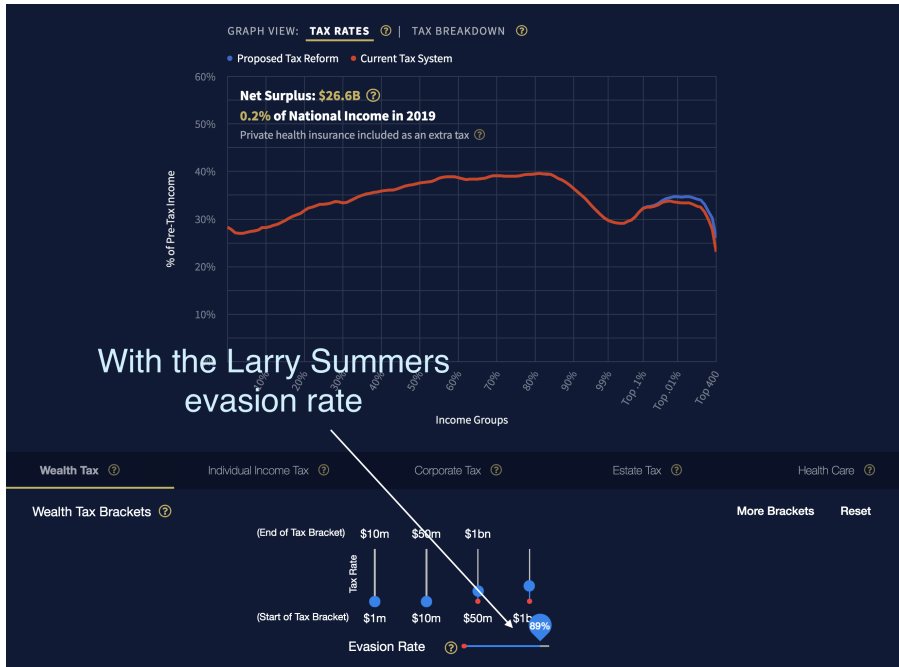
• Proposed Tax Reform • Current Tax System



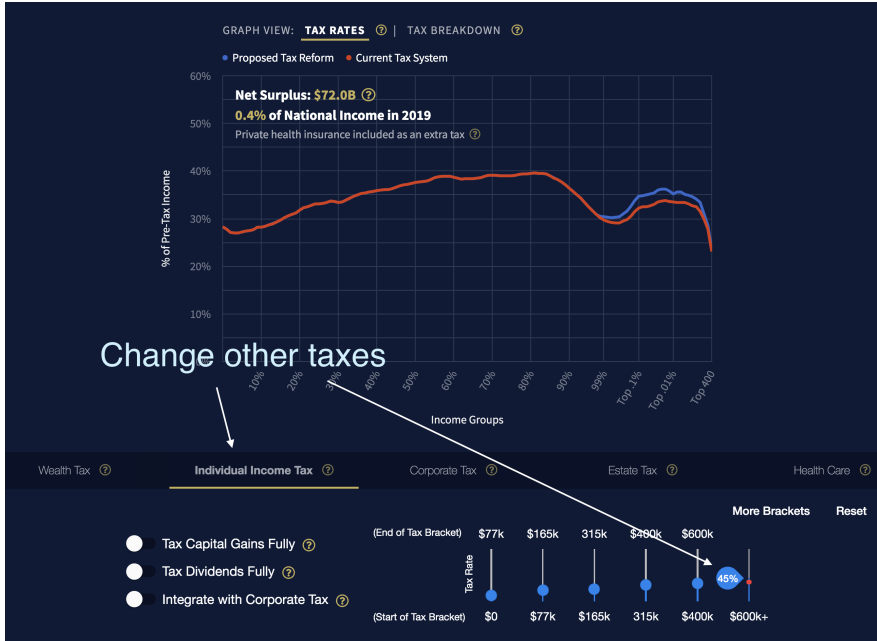
# You can construct Warren's wealth tax...



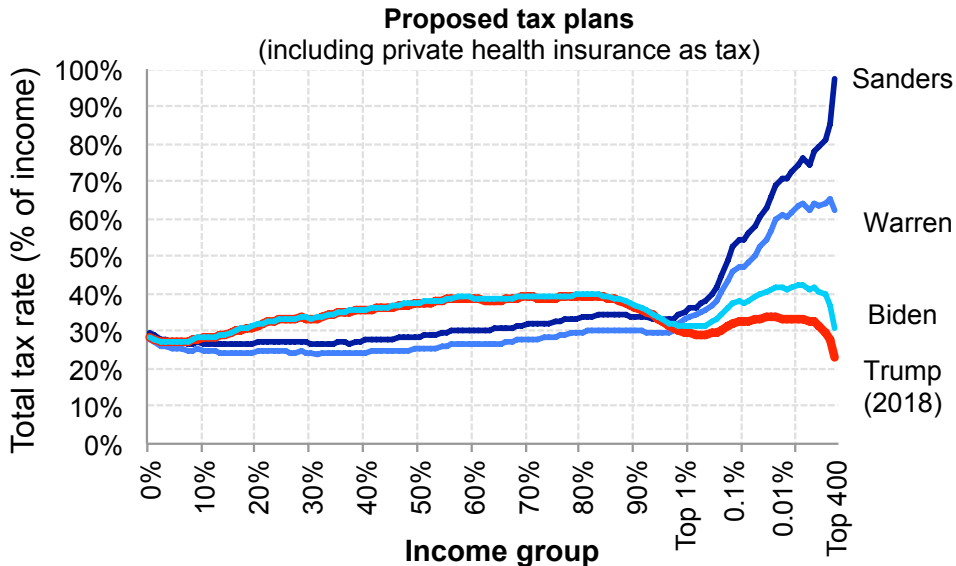
# Select a plausible evasion tax rate...



# Change other taxes...



# Tax simulator models the candidates tax plans...





# You can complete candidates tax plans...



# Conclusion

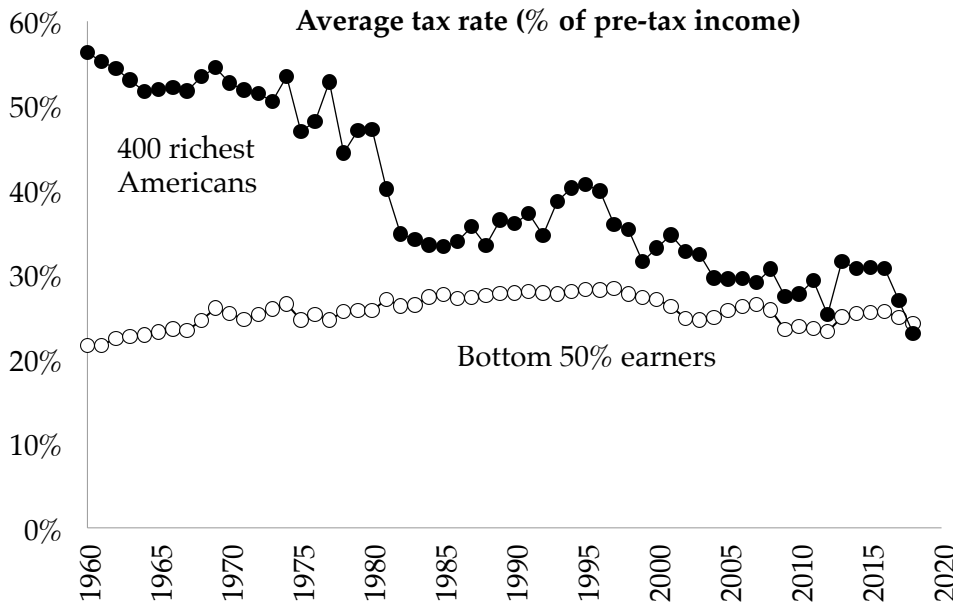
**Widely held view that external or technical constraints make tax justice impossible is wrong**

- ▷ Technically nothing in globalization prevents progressive taxation
- ▷ Tolerating tax evasion is a choice
- ▷ There is an infinity of possible future policy paths

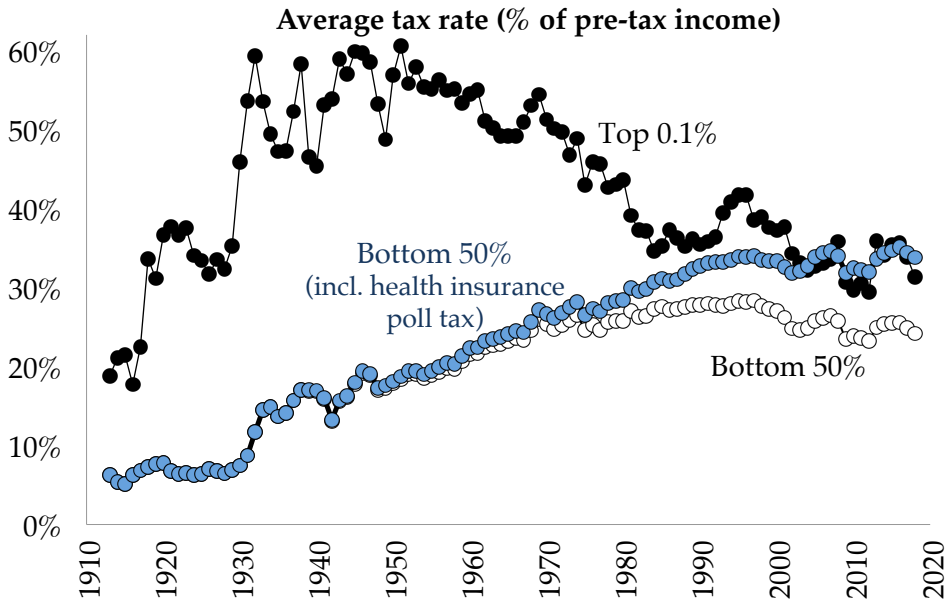
Economists can be helpful by showing multiplicity of possible futures, and as plumbers—fixing leaks

# Supplementary Slides

# For the first time in 2018, billionaires paid lower tax rates than the working class



# Including health poll tax, working-class pays more than the top 0.1%



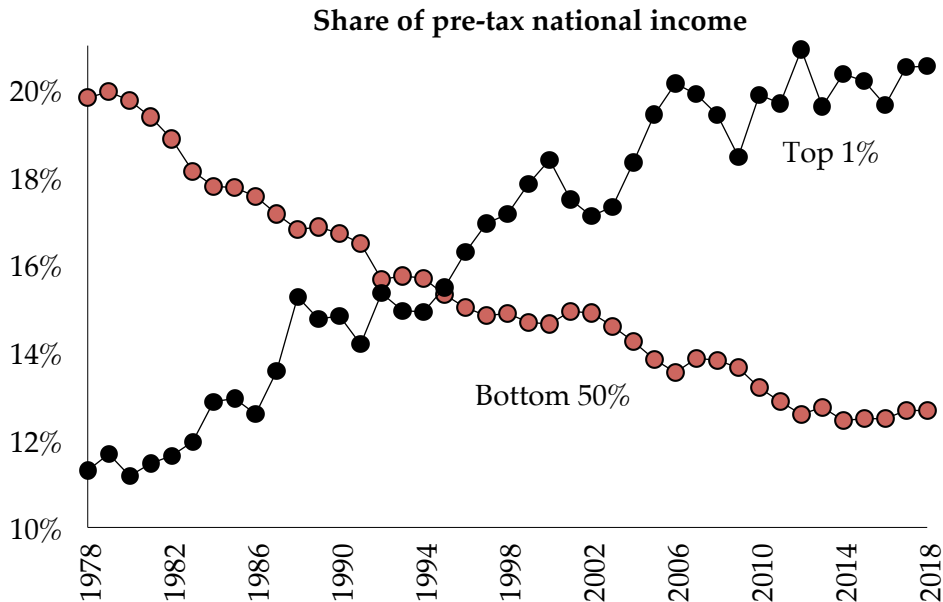
Two engines of inequality: ↘ taxes at the top, ↗ health costs for the rest

- ▶ **Bottom 50% average pre-tax income has stagnated since 1980, at \$18,500 per adult**
- ▶ Out of this stagnating income, rising share goes to taxes & health → impedes wealth accumulation
- ▶ At the top, opposite process: booming income and falling taxes → snowballing wealth accumulation

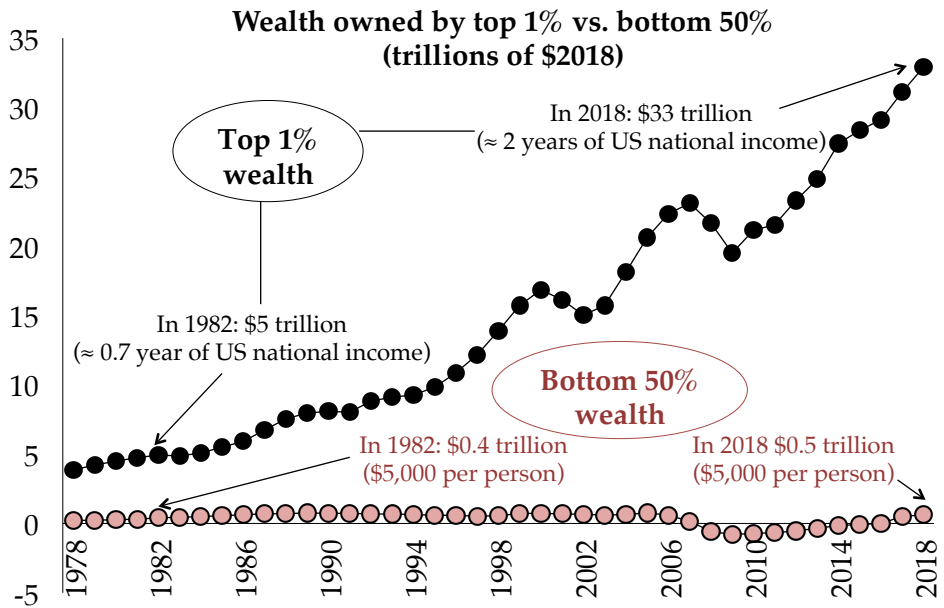
**There's no fixing inequality without fixing taxes:**

- ▶ Progressive taxation is the safeguard that kept top wealth accumul. under control in 20th c., now gone
- ▶ **The health care question is a tax question:** what should replace the private poll tax?

# The rise of income inequality in the United States

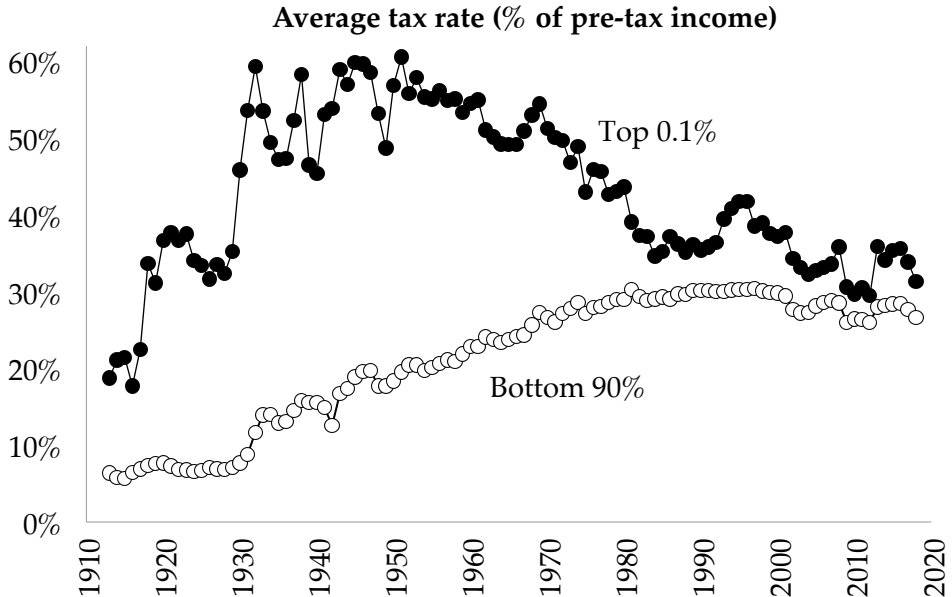


# Snowballing wealth accumul at the top. Wealth stagnation at the bottom.



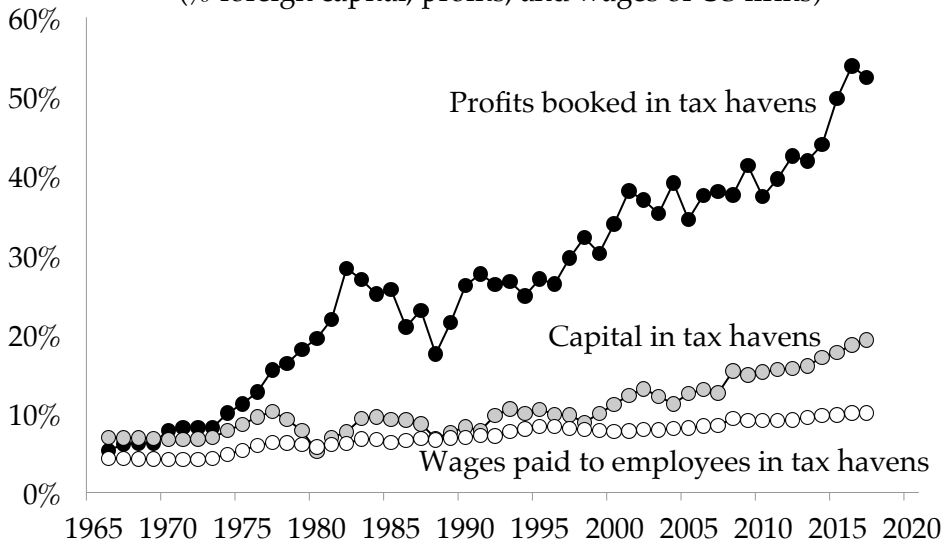


# The rise and fall of tax progressivity



# Paper profits are moving to tax havens; real activity less so

**Capital, profits & wages of US firms in tax havens**  
(% foreign capital, profits, and wages of US firms)



# Towards the death of the progressive income tax?

Collapse in global corporate tax rate (halved since 1980s)

Key problem: **no progressive income taxation possible without high enough corporate tax rate**

- ▷ If low corporate tax rate, the rich incorporate and retain earnings within their firm → save tax free
- ▷ Individual income tax becomes mere consumption tax
- ▷ As tax competition rages, gap between corp. vs. top indiv. tax rate rises → rich more likely to incorporate

Any progressive plan must start with a strategy to end inter'l tax competition. **Good news is: this is doable.**

[TaxJusticeNow.org](http://TaxJusticeNow.org)

# How we simulate tax reforms

## **Two key questions to analyze a tax reform:**

1. Effect on each group's effective tax rate?
2. Effect on the dynamics of pre-tax income inequality?

Existing models (CBO, JCT, Treasury, Tax Policy Center) do 1. but for federal taxes only, and not 2.

[TaxJusticeNow.org](http://TaxJusticeNow.org) does 1. (for all taxes at all levels of gov.) and 2. through an interactive user-friendly website

# TaxJusticeNow.org, live on October 15

 THE TRIUMPH OF INJUSTICE

TECHNICAL APPENDIX ABOUT

For the first time in over a century,  
billionaires now pay lower tax rates than their secretaries.

# TAX JUSTICE NOW

BEGIN ↓

# Reinventing fiscal democracy

## **What the user can do:**

- ▷ Change existing taxes: income, corporate, estate, payroll, etc. Can change tax rates and enforcement.
- ▷ Create new taxes (wealth tax, national income tax, ...)

## **What the website does:**

- ▷ Show immediate impact on tax progressivity
  - ▷ Show long-run effect on pre-tax income distribution (inequality)
  - ▷ User-friendly: move levers or tick boxes, and graphs adjust in real time
- Make tax debate available to broad audience

# Starting from who pays what today...

GRAPH VIEW: TOTAL TAXES GRAPH | TOTAL TAXES BREAKDOWN

100%

**Net Surplus: \$-0.7B**

**0% of GDP in 2018**

80%

60%

40%

20%

0%

Propos

Current

10.0%

20.0%

30.0%

40.0%

50.0%

60.0%

70.0%

80.0%

90.0%

99.0%

Top -1%

Top .01%

Top 400

Income Group

% of Pre-Tax Income





# What's the effect of Warren's wealth tax?

↓ **Make Your Own Tax Plan** and see how adjusting various taxes can make the tax system more/less progressive.

## Make Your Own Tax Plan

### STEP 1

Adjust the sliders below to make your own tax plan. Or, you can start with a preset tax plan from the dropdowns below.

Select a Tax Plan

Elizabeth Warren's Tax Plan

### STEP 2

Select the tax you want to change from the navigation bar.

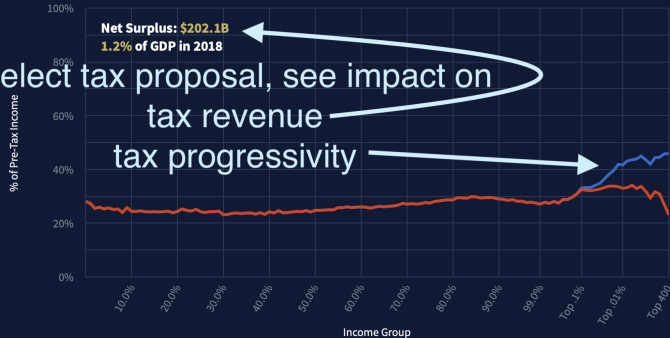
### STEP 3

Download the results by clicking the button below, or reset the sliders to start over.

Download results

Reset all

GRAPH VIEW: **TOTAL TAXES GRAPH** | TOTAL TAXES BREAKDOWN



Wealth Tax

Individual Income Tax

Corporate Tax

Estate Tax

Flat Tax

Wealth Tax Brackets ?

(End of Tax Bracket)



Evasion Rate ?



# What's the effect of higher wealth tax rates?

↓ **Make Your Own Tax Plan** and see how adjusting various taxes can make the tax system more/less progressive.

## Make Your Own Tax Plan

### STEP 1

Adjust the sliders below to make your own tax plan. Or, you can start with a preset tax plan from the dropdown below.

Select a Tax Plan

Elizabeth Warren's Tax Plan

### STEP 2

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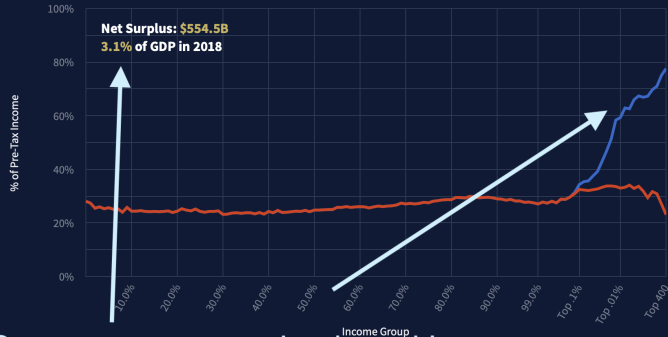
### STEP 3

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GRAPH VIEW: **TOTAL TAXES GRAPH** | TOTAL TAXES BREAKDOWN



## Create your customized wealth tax

Wealth Tax

Individual Income Tax

Corporate Tax

Estate Tax

Flat Tax

Wealth Tax Brackets ?



# What's the effect of higher top marginal income tax rates?

↓ **Make Your Own Tax Plan** and see how adjusting various taxes can make the tax system more/less progressive.

## Make Your Own Tax Plan

### STEP 1

Adjust the sliders below to make your own tax plan. Or, you can start with a preset tax plan from the dropdown below.

Select a Tax Plan

Elizabeth Warren's Tax Plan

### STEP 2

Select the tax you want to change from the navigation bar.

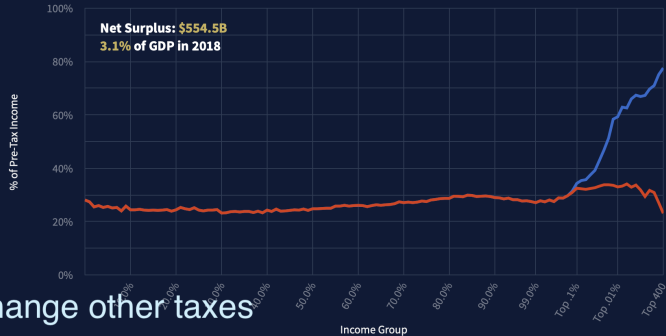
### STEP 3

Download the results by clicking the button below, or reset the sliders to start over.

Download results

Reset all

GRAPH VIEW: **TOTAL TAXES GRAPH** | TOTAL TAXES BREAKDOWN



## Change other taxes

Wealth Tax

**Individual Income Tax**

Corporate Tax

Estate Tax

Flat Tax

Individual Income Tax

(End of Tax Bracket)

\$77k \$165k 315k \$400k \$600k+

Tax Rate

\$0 \$77k \$165k 315k \$400k

# What's the effect of minimum taxes for multinational companies?

↓ **Make Your Own Tax Plan** and see how adjusting various taxes can make the tax system more/less progressive.

## Make Your Own Tax Plan

### STEP 1

Adjust the sliders below to make your own tax plan. Or, you can start with a preset tax plan from the dropdown below.

Select a Tax Plan

Elizabeth Warren's Tax Plan

### STEP 2

Select the tax you want to change from the navigation bar.

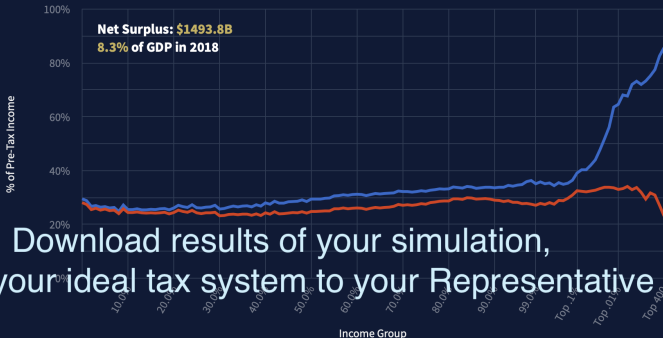
### STEP 3

Download the results by clicking the button below, or reset the sliders to start over.

Download results

Reset all

GRAPH VIEW: **TOTAL TAXES GRAPH** | TOTAL TAXES BREAKDOWN



Download results of your simulation,  
send your ideal tax system to your Representative

Wealth Tax

Individual Income Tax

**Corporate Tax**

Estate Tax

Flat Tax

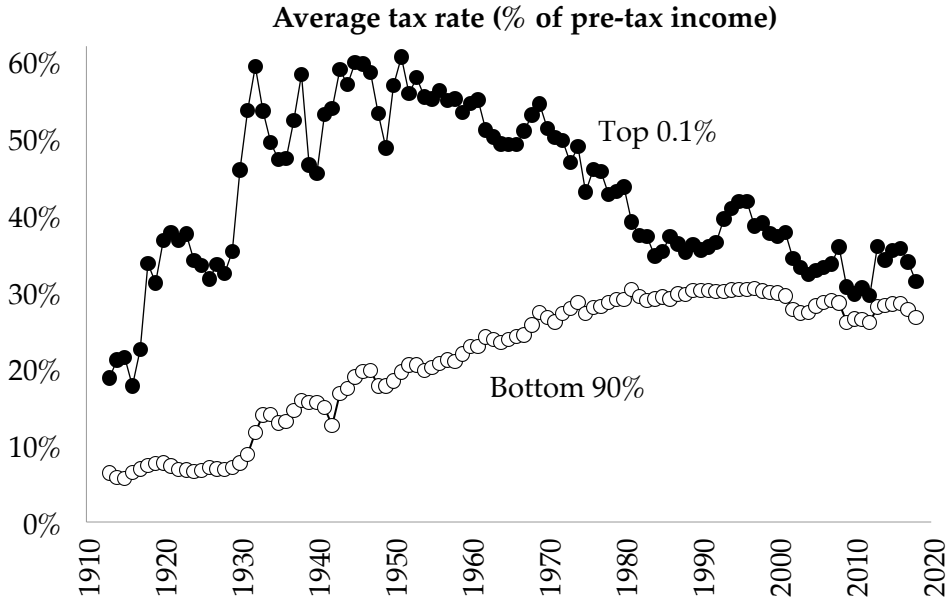
Corporate Tax ?

Reduce tax  
avoidance

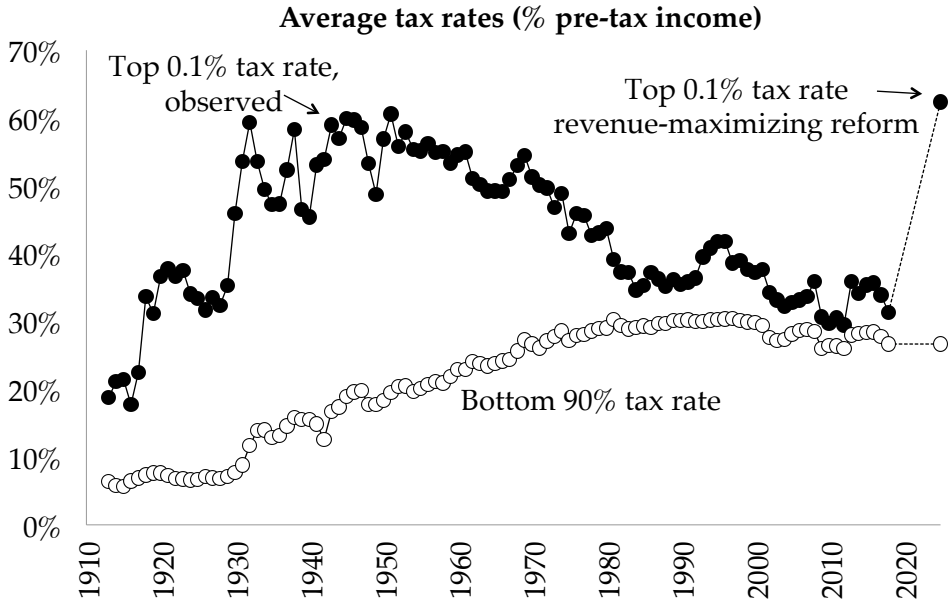
Proposed Effective Corporate Tax Rate ?

Better Taxation of Multinationals ?

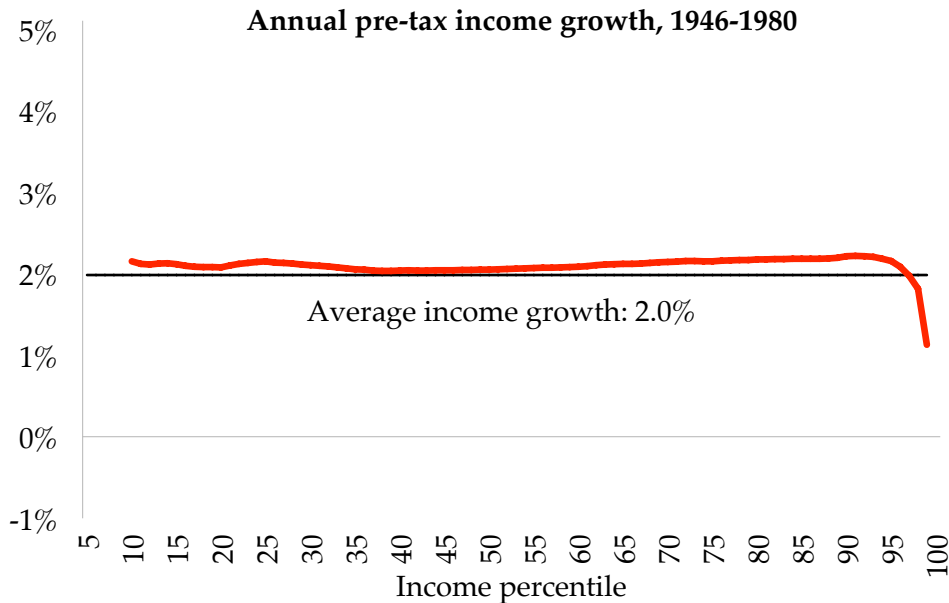
# Starting from the history of tax progressivity in the US...



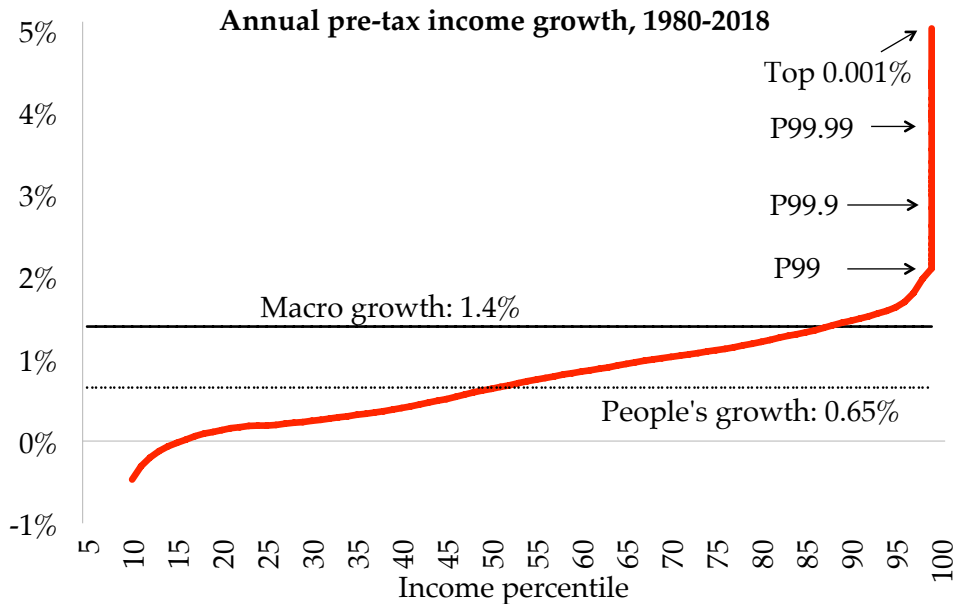
# What if we increased top tax rates to maximize tax collection from the wealthy?



# 1946–1980: growth equitably shared (triumph of representative agent model)

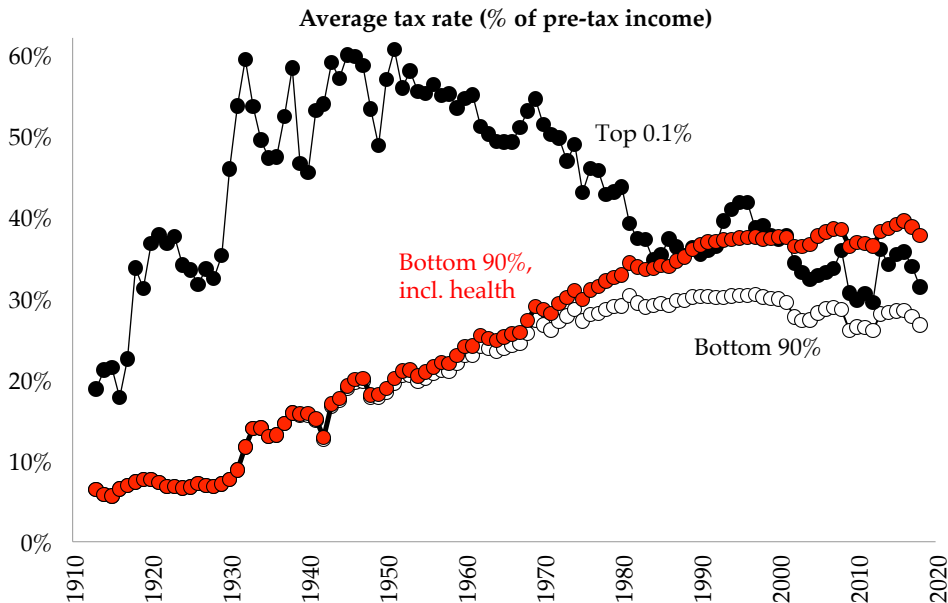


After 1980: people's growth (average of each person's growth)  $\ll$  macro growth

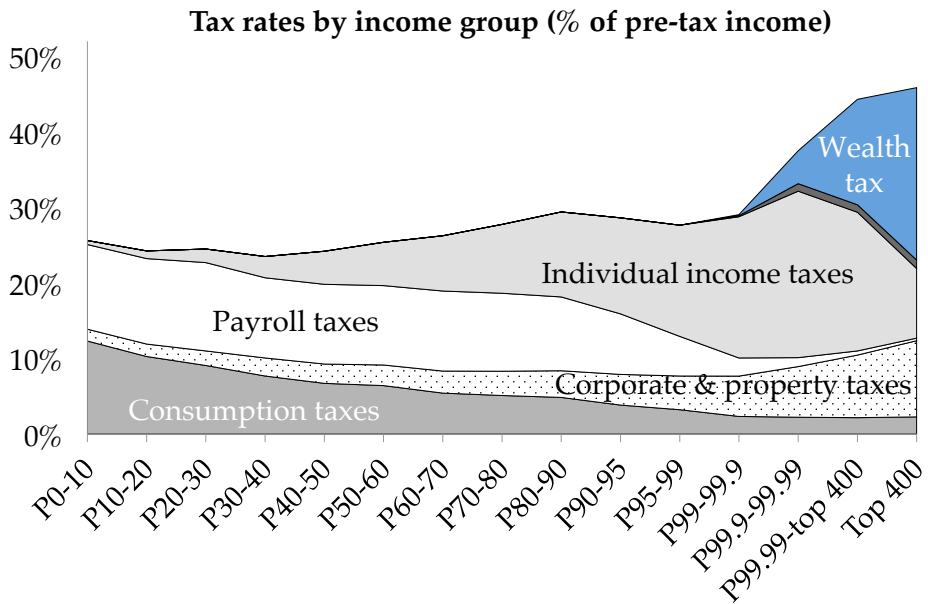




# The 2 engines of injustice: falling taxes at the top, rising health poll tax for the rest



# The Warren wealth tax would have a big impact on tax progressivity at the top

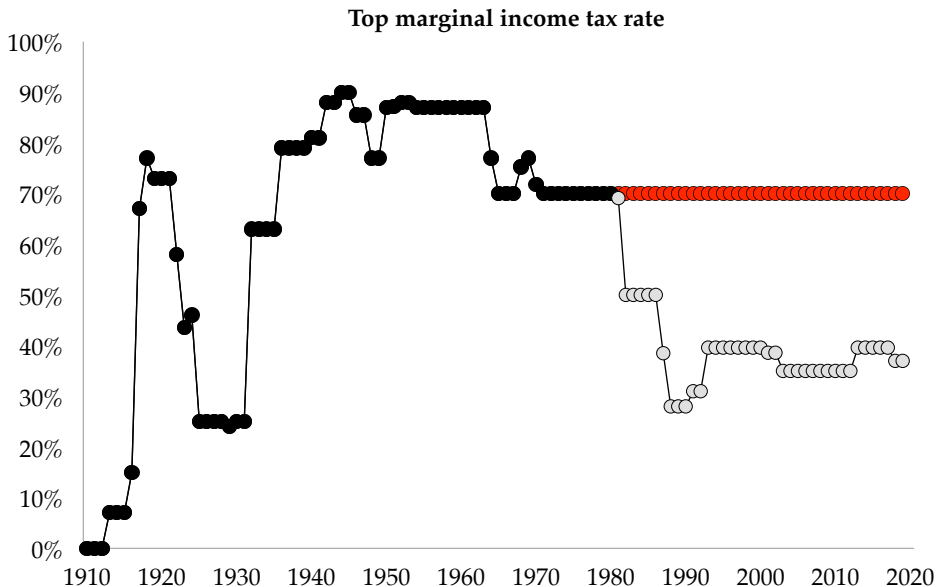


# How we simulate the effect of tax changes on pre-tax inequality (for wonks)

## Key features of the model:

- ▷ Model works at percentile group level  $p = P0-10, \dots$
- ▷ Actual outcomes for group  $p$  in year  $t$ : pre-tax income  $z_{pt}$  and average tax rate  $\tau_{pt}$
- ▷ Counterfactual outcomes:  $\hat{z}_{pt}, \hat{\tau}_{pt}$  with an alternative tax system in place since year  $t_0$
- ▷  $z_{pt}$  respond to taxes through behavioral elasticity  $e_p$  that depends on overall marginal tax rate  $mtr_{pt}$ :  
$$z_{pt} = z_{pt}^0 \cdot (1 - mtr_{pt})^{e_p}$$

# What if the US had kept a 70% top rate since the 1970s?



# Two types of real behavioral responses to taxes (for wonks)

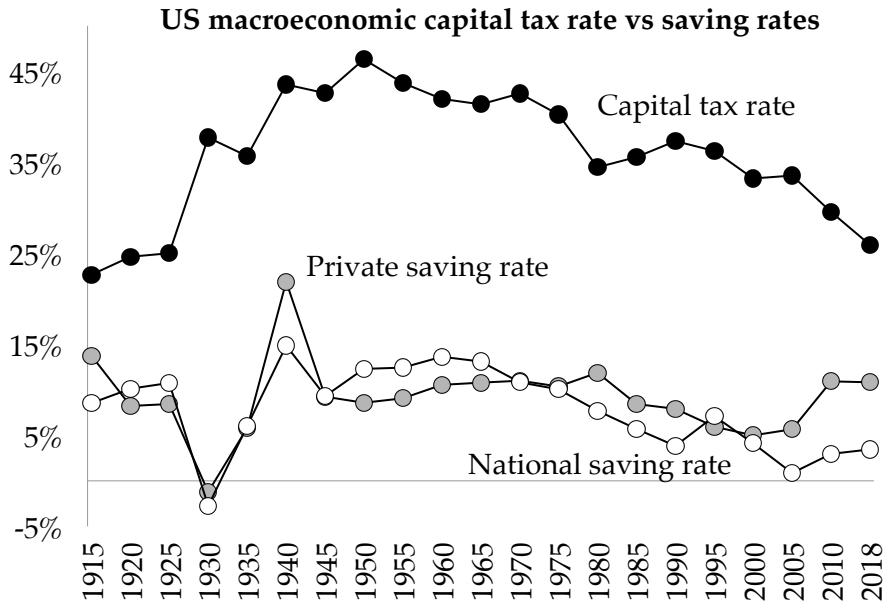
## Key distinction: output vs. rent-sharing responses

- ▷ Output responses affect **level of output** through labor supply and capital accumulation: elasticity  $e_{pt}^O$
- ▷ Rent-sharing responses affect pre-tax **distribution of output**: workers bargain for higher wages, private equity owner squeeze workers or customers:  $e_{pt}^R$

$e_p^O, e_{pt}^R$ : not immutable parameters:  $e_p^O$  could be 0 (as, eg, during World War 2).

Benchmark:  $e_p^O = 0.25$  and  $e_{pt}^R = 0.75$  at top; can be modified by user.

# What boosts saving: regulations, not tax incentives



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## Summary of our reform: Taxing the rich

	Type of tax	Revenue (% of national income)
Wealth tax	2% rate above \$50 million	1.2%
	3.5% rate above \$1 billion	
	60% top marginal income tax rate	
Income tax	Full taxation of dividends & K gains	1.7%
	Integration with corporate tax	
Corporate tax	30% effective US corporate tax rate	1.2%
	25% country-by-country minimum tax	
<b>Total</b>		<b>4.1%</b>

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## Summary of our reform: A fairer social state

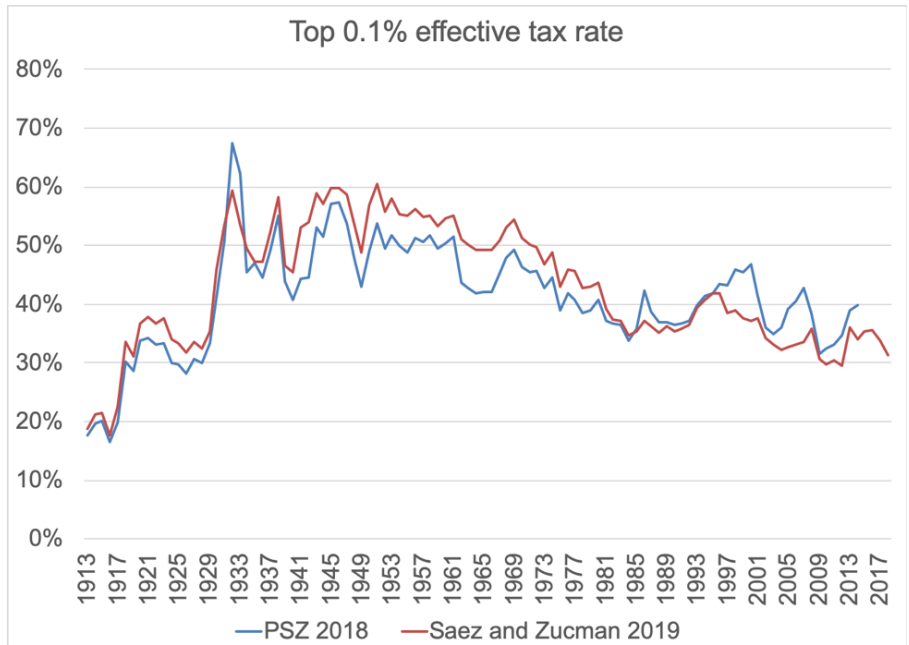
	Type of tax / spending	Revenue (% of national income)
Abolish health care poll tax	\$8,000 for currently-covered workers	-6.0%
	\$8,000 for the currently uninsured	
Education for all	Public child care and early education	-1.0%
	Free tuition for public universities	-0.5%
Abolish sales taxes	Eliminate sales taxes and Trump tariffs	-2.3%
National income tax	Flat 6% rate	5.6%
<b>Total</b>		<b>-4.1%</b>

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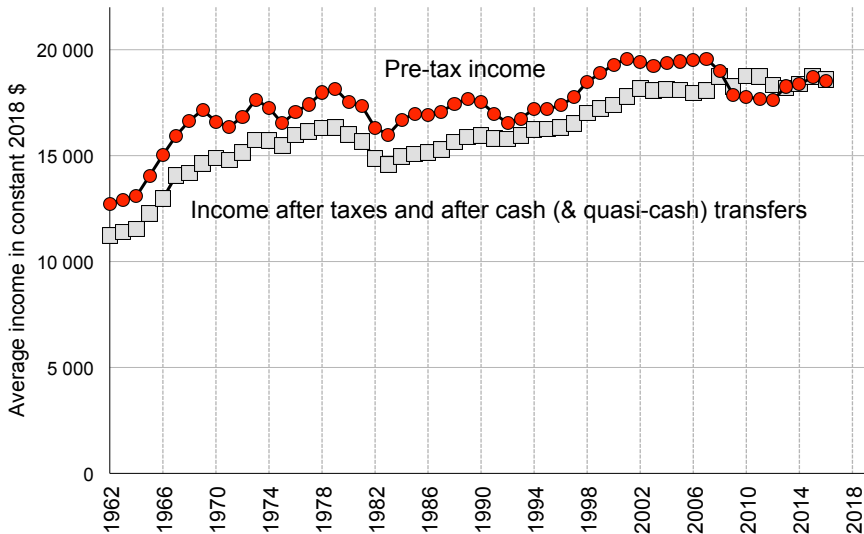


# Comparison with PSZ

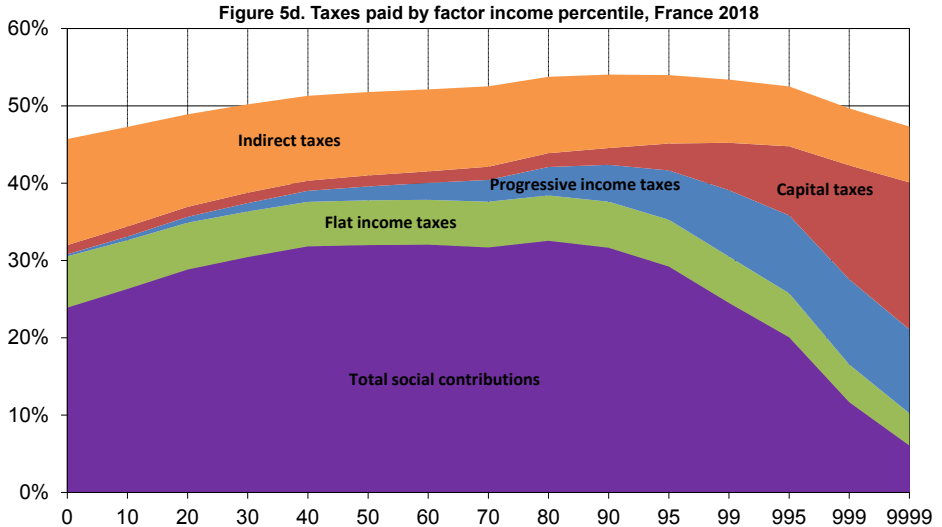


# The working-class does not benefit on net from cash redistribution

Real average income of bottom 50%: pre-tax vs. post-tax



# The tax system of France appears no more progressive than that of the US



Distribution of factor national income among working population, i.e. adults aged 25-60 y.o working at least part-time.